

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

* * * *

In the Matter of:

NOTICE OF ADJUSTMENT TO)	
RATES OF WEST KENTUCKY RURAL)	CASE NO.
TELEPHONE COOPERATIVE CORPORATION,)	7927
INC.)	

O R D E R

On July 29, 1980, West Kentucky Rural Telephone Cooperative Corporation (hereinafter Applicant or West Kentucky) filed an application with this Commission giving notice of an adjustment of rates for all customers to become effective on and after August 17, 1980. Applicant stated that the current rates were not sufficient to cover Applicant's operating expenses and financial obligations and that unless rate relief was expeditiously authorized Applicant's operations and credit would be materially impaired.

On July 30, 1980, the Commission entered an Order suspending the proposed rate increase for a period of five months, or until January 17, 1981. The Commission issued an additional Order on August 14, 1980, which scheduled a hearing for October 28, 1980, and directed Applicant to give notice to its customers of the proposed rate increase and the scheduled hearing.

On August 4, 1980, the Division of Consumer Intervention in the Office of the Attorney General filed a motion to intervene in this proceeding which was sustained. This was the only party of interest formally intervening herein.

On October 8, 1980, West Kentucky amended its request to include increases in all services included in its tariff and an increase in the local pay station charge. Applicant's proposed intrastate revenue from these increases and the original request for increased rates was \$410,836, or 16.2% above intrastate revenues for the test year.

The hearing was conducted as scheduled at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

COMMENTARY

West Kentucky Rural Telephone Cooperative Corporation is a consumer-owned utility providing telephone service to approximately 10,640 subscribers in the Kentucky counties of Calloway, Carlisle, Graves, Hickman, McCracken, and Marshall, and to an additional 1,560 subscribers in the Tennessee counties of Henry and Weakley.

TEST PERIOD

The Commission has adopted the twelve month period ending June 30, 1980, as the test period for determining the reasonableness of the proposed rates and charges. In utilizing the historic test period the Commission has given full consideration to known and measurable changes where appropriate.

VALUATION

Net Investment

The Commission finds from the evidence of record that Applicant's Net Investment devoted to furnishing intrastate telephone service as of June 30, 1980, is as follows:

Utility Plant in Service	\$ 18,258,266
Construction Work in Progress	116
Total Utility Plant	\$ 18,258,382
Add:	
Materials and Supplies	\$ 339,988
Deduct:	
Depreciation Reserve	\$ 3,819,192
Net Investment	\$ <u>14,779,178</u>

In calculating the Net Investment, the Commission has adjusted Total Utility Plant to include Construction Work in Progress. The Commission has further adjusted Applicant's rate base by eliminating Working Capital due to Applicant's advance billing for local service. The Applicant's proposed rate base has also been reduced by the Reserve for Depreciation to reflect the Commission's view that a utility should not be allowed a return on that portion of its property which has been depreciated.

Capital Structure

The Commission has determined that Applicant's Capital Structure at the end of the test period was \$17,490,727, and consisted of \$604,181 in equity and \$16,886,546 in long-term debt. Applicant's net plant devoted to intrastate operations is 87%, resulting in \$15,216,932 of total capitalization being allocated to Kentucky operations.

The Commission has given due consideration to these and other elements of value in determining the reasonableness of the rate increase proposed herein.

REVENUES AND EXPENSES

Applicant proposed several adjustments to revenues and expenses, as reflected on its Schedule 1. The Commission finds that the proposed adjustments to revenues and expenses for anticipated customer growth are based on speculative projections rather than known increases in revenues and expenses and therefore, are not accepted herein for rate-making purposes.

The Commission has further adjusted revenues and expenses in the following manner:

1. Local service revenues have been adjusted by \$115,874 to reflect the additional revenues that would be generated annually from the rates granted Applicant in Case No. 7354. This adjustment normalizes intrastate revenues for the test period based on Applicant's end-of-period customers.

2. Local service revenues have been further increased by \$7,843 to reflect, for Kentucky operations, the elimination of employee concession services for rate-making purposes as it is the opinion of this Commission that ratepayers should not be required to pay an increased rate to return this lost revenue to the Applicant.

3. Operating expenses have been adjusted by \$2,128, which is the portion of Institutional Advertising expense allocated to intrastate operations. This adjustment is made pursuant to the Commission's regulations regarding advertising expenditures allowable for rate-making purposes.

4. The Commission is of the opinion that Applicant's policy of adjusting wages and salaries quarterly in direct proportion with changes in the Consumer Price Index is unreasonable. The Commission is of the opinion that under existing economic conditions the long-range effects of such a policy will be to adversely affect the financial stability of Applicant as well as place an undue burden on the Applicant's ratepayers. The Commission therefore finds that the Applicant should seek to revise its wage and salary increase policies and that wage and salary increases based on the present policy will not be considered a legitimate and allowable expense in future rate-making proceedings.

The effect on Net Income of the adjustments is as follows:

	<u>Actual Test Period</u>	<u>Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$2,539,178	\$123,717	\$2,662,895
Operating Expenses	\$2,130,434	95,755	2,226,189
Operating Income	\$ 408,744	\$ 27,962	\$ 436,706
Interest Expense	678,359	-0-	678,359
Interest Income	3,820	2,610	6,430
Net Income	<u>\$ (265,795)</u>	<u>\$ 30,572</u>	<u>\$ (235,223)</u>

RATE OF RETURN

The rate of return on Applicant's Net Investment, established herein for the test year, was 2.77%. After taking into consideration the accepted adjustments, Applicant would realize a 2.95% rate of return. The Commission is of the opinion and finds the adjusted rate of return is inadequate and would impair Applicant's financial integrity. In order to remain on a sound financial basis, Applicant should be allowed to increase its annual intrastate revenues by approximately \$247,755, based on test period conditions which would provide a rate of return of 4.63%.

The rates proposed by Applicant and set out in Appendix "A" will produce additional revenues of \$247,755. This increase in revenues will be sufficient to allow Applicant to pay its operating expenses, adequately service its debt, and maintain its financial integrity.

SUMMARY

The Commission, after consideration of the evidence of record and being fully advised, is of the opinion and so finds that the rates and charges proposed by the Applicant and set out in Appendix "A" attached hereto and made a part hereof are the fair, just, and reasonable rates for Applicant and will produce annual intrastate local service revenues of \$1,883,460 and intrastate miscellaneous service revenues of \$121,600. These revenues, when combined with toll service revenues, will provide gross annual revenues of \$2,910,650.

IT IS THEREFORE ORDERED, that the rates and charges proposed by West Kentucky Rural Telephone Cooperative Corporation and set out in Appendix "A" attached hereto and made a part hereof, are approved for service on and after the date of this Order.

IT IS FURTHER ORDERED, that West Kentucky Rural Telephone Cooperative Corporation shall revise its wage and salary increase policies pursuant to the findings of Item 4 of the Revenues and Expenses section of this Order.

IT IS FURTHER ORDERED, that West Kentucky Rural Telephone Cooperative Corporation shall file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 19th day of January, 1981.

UTILITY REGULATORY COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY COMMISSION IN CASE NO. 7927 DATED JANUARY 19, 1981.

The following rates and charges are prescribed for the customers in the area served by West Kentucky Rural Telephone Cooperative Corporation, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

<u>Basic Local Exchange Service</u>	<u>Monthly Rate</u>
Business:	
One-Party	\$ 19.50
Residence:	
One-Party	\$ 13.50
Paystations	\$ 19.50
<u>Local Paystation Charge:</u>	
Local Messages, each	\$.25
<u>Part I - Section D-1.a</u>	
Service Connection Charge	\$ 20.00
<u>Part II - Section A-1.a</u>	
Restoral of Service	\$ 20.00
<u>Part II - Section 2B(1)(2)</u>	
Inside Moves and Changes	\$ 20.00
<u>Part II - Section C - Miscellaneous Charges</u>	
Install Extension	\$ 20.00
Exchange Sets	20.00
Install Jack - Inside	20.00
Install Jack - Outside	25.00
Install Speakerphone	25.00
Install Jack for Customer	
Owned Equipment	20.00
Install 14' Straight Cord	17.75
Install 25' Straight Cord	18.50
Install 12' Coiled Cord	19.75
Install 25' Coiled Cord	22.25
Install 13' Slenderet Straight Cord	19.75
Install 25' Slenderet Straight Cord	23.50
Install Extension Bell-Small	20.00
Install Extension Bell-Large	20.00
Install Howler	25.00
Install Relay	25.00
Install Amplifier	20.00
<u>Part II - Section D - Key System</u>	
Install 2 Button Set	\$ 20.00
Install 3 Button Set	20.00
Install 4 Button Set	20.00
Install 6 Button Set	25.00
Install 12 Button Set	25.00
Install Hands Free Key Set	25.00
Install Music on Hold	25.00
Install Call Announcer	25.00